Floods and wet weather failed to dampen expectations of a huge US harvest last year.

Volatile grain market set to continue throughout 2009

Growers who thrive during 2009 will be those who learn to live with unpredictable grain prices, writes **Jeremy Cole**

Where does time go when you're having fun? It doesn't seem five minutes since the farming chat at the beginning of last year was all about a perfect land-working autumn, high wheat prices, low input costs and increased margins.

A brave new world of prosperity for the ag-sector was here at last. Even with global drillings up, commodity prices were rising, LIFFE November 08 futures were approaching £160/t. Stock levels were so depleted from the previous year's lower harvest that markets had to rise back to the previous highs of August 07. Even so, there were very few UK ex farm sellers, as too much was sold, too early, the year before – and look what happened then.

All factors continued to point to higher global production and everything in the garden looked ideal – for a while at least. The markets reacted to this potential high harvest Öby gradually rising! The world really must be short of food.

Then early April came and as more crop reports pointed towards a large potential harvest, the trade finally decided that supply would be bigger than demand and commodity prices began to fall. So too did house prices and economic activity. Something nasty in the US woodshed was really beginning to smell.

LIFFE fell £30 from mid March to mid-May. But there were few sellers as ex-farm wheat for November 08 was still making £130/t. When floods hit the USA,plunging millions of acres under water, the world commodity markets exploded upwards. Corn prices rose £30 in six weeks as a result. November wheat hit £150/t ex-farm again, prompted by fears of a world food shortage.

July dawned, the rain stopped, the sun came out. So too did massive US drilling machines. Lo and behold, the country was drilled up, albeit a month late. Panic over, the USDA reported the acreage drilled, projected the yields and the funds did their sums. Was production much bigger than supply, was US activity falling? The answer was yes on both counts. They began to sell, sell and sell some more. The bubble had burst.

The CBOT market nose-dived so fast, the trade had nosebleeds from the G-force. Corn fell £55 in five weeks to the beginning of August. The LIFFE followed, down £25. There was a rest bite for a couple of weeks in August with further wet weather in the US and Europe, but even that could not stop the huge harvest from coming in.

Looking back, it should have been clear thay yields were good, despite the UK's rain sodden harvest. The UK markets dropped £35 by mid October, leaving November LIFFE at £90/t, with ex-farm values lower than £85/t.

I should have been more forceful in "making" my customers sell, even though my weekly grain report was saying so. But with harvest continuing nearly into October, you can understand the reticence in selling anything.

From harvest to now, little grain has been sold. Most attention has been on drying and conditioning the crop. Sales have been delayed, contracts rolled forward and even cash settled to avoid the need to load wet grain to be claimed or rejected.

Feed wheat seems to have found a value in the market somewhere around £85/t, competing with the massive Black Sea supplies flooding the market, even knocking the mighty US corn into second place on price. Thankfully for UK exports, Sterling has been very weak, being at a seven year low against the Dollar and an historic low against the Euro. Had Sterling remained at $2, UK wheat would be £20/t lower.

My crystal ball says that there will be no significant recovery of old crop this season and supplies ought to be sold now. Supply massively exceeds demand and that is it. New crop is the crop to concentrate on now for potential market gains, with most pundits and farmers believing the market will rise significantly. I tend to agree.

But it may not, so if you're not a seller, please protect at least 25% of your crop against a fall in prices at this point with a hedgeÖ just in case.

If you're right and the market rockets upwards, all you'll lose is about £3/t, which is very cost effective to avoid that ulcer. If it falls, sell some physical crop or increase the hedge to 50%, all the time reducing downside risk. Either way, here's to a prosperous 2009.

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